Canadian Pacific Limited

Annual Report 1971

1972 Annual Meeting

The Annual General Meeting of the Shareholders is being held on Wednesday, May 3rd next, at Le Château Champlain, Place du Canada, Montreal, at eleven a.m. (daylight saving time, if operative).

Stock Transfer Agents

Bank of Montreal Trust Company,
2 Wall Street, New York

The Royal Trust Company,
1648 Hollis Street, Halifax, N.S.
1 King Street, Saint John, N.B.
630 Dorchester Boulevard West, Montreal
Toronto Dominion Centre, Toronto
287 Broadway, Winnipeg
101 McCallum Hill Building, Regina
600 - 7th Avenue S.W., Calgary
Royal Trust Tower, Bentall Centre,
555 Burrard Street, Vancouver

Deputy Secretary,
8 Waterloo Place, London SW1Y 4AQ, England

Stock Listings

Debenture Stock (Sterling) listed on:
London Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Stock (Sterling) listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

Preference Stock (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

Preferred Shares, Series A listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

Ordinary Stock listed on:
Montreal, Toronto, Vancouver, New York and
London, Eng. Stock Exchanges

Shareholders having inquiries should write to:
T. F. Turner, Secretary,
Canadian Pacific Limited,
Montreal 101, Canada.

Photograph of earth in space symbolizes the global land, sea and air activities of Canadian Pacific.

Contents

Summary of Earnings of the Company and its Subsidiaries and of Dividends Declared

	1971		1970	
	(in thousands, except amounts per share)			
		Per Ordinary Share		Per Ordinary Share
Earnings of the Company and its Subsidiaries				
Net railway earnings	**$45,756**		$38,392	
Other income	**26,591**		18,150	
Income before fixed charges	**72,347**		56,542	
Fixed charges	**33,768**		27,804	
Income from railway and miscellaneous sources	**38,579**	**$0.49**	28,738	$0.35
Income (being dividends received) from				
Canadian Pacific Investments Limited	**23,649**	**0.33**	23,649	0.33
Canadian Pacific Air Lines, Limited	**1,433**	**0.02**	1,433	0.02
Total, excluding earnings retained by subsidiaries and before extraordinary items	**63,661**	**0.84**	53,820	0.70
Equity in earnings retained by subsidiaries	**6,995**	**0.10**	10,350	0.15
Total before extraordinary items	**70,656**	**0.94**	64,170	0.85
Extraordinary items (C.P.L. 1971 – $1,848,000; 1970 – Nil)	**4,884**	**0.07**	1,507	0.02
Total	**$75,540**	**$1.01**	$65,677	$0.87
Dividends Declared				
On 7¼ % Preferred stock	**$ 1,464**		$ —	
On 4% Preference stock	**$ 1,938**		$ 3,311	
On Ordinary stock				
From railway and miscellaneous sources	**$22,215**	**31¢**	$21,499	30¢
Flow-through from Canadian Pacific Investments Limited	**23,649**	**33**	23,649	33
Flow-through from Canadian Pacific Air Lines, Limited	**1,433**	**2**	1,433	2
	$47,297	**66¢**	$46,581	65¢

For greater efficiency, rail is welded into continuous ribbons of steel. CP Rail maintenance crews laid more miles of continuous welded rail in 1971 than ever before.

A New Name

The name of the Company was changed to "Canadian Pacific Limited" on July 3. The new name retains all the rich background of history associated with "Canadian Pacific" at the same time as it accommodates the fact that varied transportation and natural resource activities have been added to the Company's original railway operation.

Earnings

Progress was made in 1971 toward the goal of increasing the earnings of the Company. The improvement in general business conditions which took place during the year was essential to this achievement but did not wholly account for it. At least as important for the results was the strengthened capability of the Company to create and use opportunities in a wide range of service and production activities.

Total earnings for the year, including those of subsidiaries, were $75.5 million, an increase of $9.8 million, or 14¢ per Ordinary share, over 1970. The increase in earnings before extraordinary items was $6.4 million, or 9¢ per Ordinary share. Dividends on the Ordinary stock were increased from 65¢ per share in 1970 to 66¢ in 1971. The increase came from railway and miscellaneous sources.

Net railway earnings were the highest since 1966. CP Rail was able to take advantage of an upswing in the economy in the last half of the year to overcome the disappointing first half, which was marked by unusually severe winter weather, work stoppages and a strike threat. The net income of CP (Bermuda) was up substantially, as a result of a larger fleet and the temporary availability of ships for spot charters. Trucking operations produced higher net income. CP Air succeeded in improving its earnings performance through rigorous control of costs, rather than as a result of any marked increase in its revenues. The net income of the subsidiary Soo Line Railroad Company was higher and so were that company's dividend payments.

Income of Canadian Pacific Investments Limited was down despite growth in earnings from oil and gas and hotels. The reduction was attributable in large measure to the effect of the higher exchange value of the Canadian dollar on the results of Cominco Ltd. and on the various forest products companies in which CPI has interests.

A detailed financial review is provided, beginning on page 8.

Capital Stock Changes

The year 1971 was also notable for the implementation of changes in the capital structure designed to give the Company greater flexibility for financing and broaden markets for its stocks. The par value of the Company's Ordinary shares was changed from $25 to $5 each effective October 1. This reduction in par value was equivalent to a five for one split of the Ordinary stock. The authorized capital of the Company was increased by the creation of 25 million Cumulative Redeemable Preferred shares having a par value of $10 each, issuable in series. Authority for the issuance of the first series of the Preferred shares consisting of 5,600,000 shares designated "7¼% Cumulative Redeemable Preferred Shares, Series A" was given by the Directors on September 13. Offers which expired November 20 were subsequently made by the Company to the holders of its Canadian dollar and Sterling Preference stock to exchange Series A Preferred shares for their Preference stock. These offers were accepted by 84% of the outstanding Canadian dollar Preference stock and 72% of the outstanding Sterling Preference stock, which stock has been cancelled. To effect the exchange 4,599,413 Series A Preferred shares were issued.

The holders of the Series A Preferred shares have no voting rights except in specified circumstances. The distribution by countries of the total voting rights of the Ordinary and Preference stock at December 31, 1971 was as follows:

Canada	60.05%
United States	19.88
United Kingdom & Other British	11.51
Other countries	8.56
	100.00%

At December 31, 1971 the number of registered holdings of the Ordinary and Preference stock was 66,534 and of the Series A Preferred shares was 7,188.

Hotel Chain Expands

The Canadian Pacific hotel chain will soon have 15 hotels in operation across Canada, bringing to approximately 6,000 the number of guest rooms provided as compared with 4,200 in 1965.

With the addition of the Northstar Inn, CP Hotels now operates a first-class hotel in Winnipeg. The Red Oak Inn in Brandon, at present under construction, will be operated by CP Hotels when it is opened in the spring of 1972.

CP Hotels is participating with Halifax Developments Limited in a company to construct and operate a hotel in the new Scotia Square development in Halifax. The 284-room luxury hotel is to be built on a plaza overlooking Halifax harbour and the Citadel fortress. Its completion is set for 1973.

The Royal York Hotel in Toronto, largest in the CP chain, is currently undergoing a multi-million dollar renovation which will modernize its public rooms, restaurants, convention facilities and guest rooms. The greater part of the work will be completed in 1972.

Montreal Redevelopment Project

Work commenced in 1971 on physical preparation of the site for redevelopment of the Windsor Station area in downtown Montreal. Railway tracks leading onto the site were relocated to permit work to proceed on the first phase of the project. Construction of phase one, an office tower and new station facility, is scheduled for commencement in mid-1972. About half the space in the office tower will be occupied by Canadian Pacific with the remaining half for rental to other tenants.

Leasing Company Formed

CanPac Leasing Limited was incorporated late in 1971 to permit Canadian Pacific to engage in the equipment leasing field. The growth of equipment leasing in Canada in recent years indicates that there is a ready market for such services. Much of the equipment which is presently leased is transportation and telecommunication equipment, both areas in which Canadian Pacific has specialized knowledge and experience. Building on that base, CanPac Leasing intends ultimately to provide a full range of equipment leasing services.

Trucking Operations Unified

CP trucking operations are the largest in Canada and among the largest in North America. To help ensure full participation in the future growth of the trucking industry, the three Canadian Pacific trucking companies — Smithsons, CP Transport and CP Express — have been brought together into a single holding company. The main objectives of this move are to reduce overhead costs and to facilitate more effective marketing. Where required, approval of these changes by regulatory authorities is being sought.

New Air Services

Under a new bilateral agreement negotiated with the Mexican Government, CP Air extended its Canada to Mexico services in October to include Acapulco and Guadalajara. The overall frequency of flights to Mexico from Eastern Canada was also increased as a result of the agreement.

In April CP Air added Tel Aviv, Israel, to the cities it serves.

Pension Benefits Increased

The Company's pension plan was amended effective July 1 to provide improved benefits for employees of the Company and pensioners. Included in the improvements is an increase in the percentage to be applied in computing pensions from 1¼% to 1½% and a lowering of the qualifications for voluntary retirement and disability pensions.

As a result of other amendments the plan will be funded as required by the Pension Benefits Standards Act (Canada).

PanCanadian Extends Explorations

PanCanadian Petroleum Limited is the name under which Central-Del Rio Oils Limited and Canadian Pacific Oil and Gas Limited were merged effective December 31, 1971. Canadian Pacific Investments Limited has an 87.2% interest in PanCanadian.

PanCanadian is steadily broadening the scope of its exploration program to include areas outside Canada. In December PanCanadian reached agreement with Italian interests providing for the joint exploration of approximately two million acres held under permits by the Italian group in Italy and in the off-shore areas of both the Tyrrhenian and Adriatic Seas. The company is also participating as a partner in a consortium undertaking exploration and drilling in the United Kingdom sector of the North Sea. These two projects mark the beginning of what is intended ultimately to be a significant program of foreign exploration.

PanCanadian and Cominco Ltd. each hold a 9% interest in Panarctic Oils Ltd. Late in 1971 Panarctic announced another major gas discovery and early in 1972 announced discovery of oil in the eastern Arctic islands.

Coal Developments

The volume of coal shipped from Kaiser Resources mine in Sparwood, B.C. to Roberts Bank has been substantially less than was forecast. Start-up difficulties at the mine necessitated a program of extensive modifications to the plant, and in early December a fire in the drying plant forced the mine to cease production for almost a month. This has resulted in under-utilization of rail equipment purchased for this project. Production from Coleman mines continued to increase with shipments reaching the target figure in the last quarter of the year.

At the Company's Fording River coal property in southeastern British Columbia, which is under the management of Cominco Ltd., development has advanced to the final stages of construction of plant facilities. A 33-mile branch line was built

Boeing 737 at Montreal airport. CP Air expanded its jet fleet in 1971 and added new destinations in Israel and Mexico to international services.

by CP Rail to connect the site to the rail line running to port facilities at Roberts Bank. Orders have been placed for 410 coal cars and 24 diesel units to move the coal. Pre-production mining has begun and inventory is being built up in anticipation of the commencement of coal deliveries in April 1972.

During the year ShelPac Research and Development Ltd., a company jointly owned by Shell Canada and CP Limited, continued research and development on the project of Cascade Pipe Line Limited to move metallurgical coal by pipeline from the Kootenay area to the coast of British Columbia. The program of testing and refining the technology should be completed in 1972. At that time Cascade, a wholly-owned subsidiary of CP Limited, will be in a position to decide on the technical feasibility of the project.

Container Traffic Grows

In the last quarter of 1971 the container loads of CP Steamships were in excess of 80% of vessel capacity. Late in the year CP Steamships established its own container truck transport between Quebec City and points in the Province of Quebec. Early in 1972 a similar service will be set up in the United Kingdom to carry containers from and to CP ships docking at Liverpool and Tilbury.

CP Rail added 200 "railtainer" cars to its fleet and now has a total of 756 cars with a capacity of 2,212 containers. Another 150 cars costing over $3 million and capable of carrying 600 containers have been ordered. Container facilities at Montreal were enlarged and additions to the compounds at Toronto and Hamilton are planned for 1972.

A new port container facility was opened at Saint John, N.B., during 1971. In addition to serving the Australia and New Zealand container service, it also serves three other lines operating container services to the Mediterranean, the Caribbean and the United Kingdom and Europe.

Ocean Ships In Service

CP (Bermuda) took delivery in January 1971 of the "T. G. Shaughnessy", the second of its two super tankers. Orders were placed during the year for three tankers to carry refined oil products. Two of these have already been chartered to a large international oil company.

CP Steamships took delivery in 1971 of the remaining two large cellular container ships that had been ordered in 1968.

After many years of attempting to find a means of operating a profitable steamship passenger service in the face of increasing air competition, the "Empress of Canada" was withdrawn from service late in November and was sold early in 1972. "Beaverelm", which was operated in cargo charter service in the early months of the year, was sold in September in view of a continuing unsatisfactory level of earnings.

Night container operations at CP Ships terminal at Quebec City. Growth of container systems was highlight of 1971.

Rail Marketing And Pricing Policies

New markets for rail services were opened up during the year through development of improved distribution systems. In October, CP Rail began operating an intermodal system for moving over 40,000 automobiles and trucks a year into the four Maritime provinces. The vehicles and parts are carried by CP Rail from central Canada and U.S. points to Saint John, N.B. From there, distribution is made by highway and water to all parts of the Maritimes.

In February 1971, a group of five major producers of grocery products accepted a proposal for distribution of their products in British Columbia through a coordinated system built around the services of CP Rail, CP Transport and a major Vancouver terminal operator. The grocery products are shipped by CP Rail from eastern Canada to Vancouver. There they are consolidated into one warehouse, whereas formerly they were distributed to numerous warehouses in different locations in the Vancouver area. From the central warehouse, all orders for the same destination are now shipped out at one time, using one truck instead of the many formerly required for a multitude of single shipments. CP Transport provides the trucking service from the warehouse to all destinations except those in the city of Vancouver and on Vancouver Island. The system reduces the distribution costs of the shippers and gives CP services valuable new business.

Incentive rates known as "open-end" were introduced between a number of points within Eastern and Western Canada during the year. These offer shippers savings that increase as the weight of the shipment increases over stated minimum loads. This encourages maximum loading of box cars and CP Rail benefits through improved utilization of equipment. In 1972 it is planned to offer these rates over a wider territory in order to compete more effectively with other forms of transport for general merchandise traffic.

Moving The Grain

Due to additional foreign sales, a considerably larger quantity of grain was required at export positions than had originally been expected. As a result, from July through December CP Rail moved 23% more grain than in the same months of the previous year. Total grain handled during the year amounted to some 224,000 cars, which was below the record year 1966 by less than 3%. Statutory restrictions established in 1897 on grain rates are still holding revenues from this traffic below a remunerative level.

The block shipping system of moving grain, which was introduced in 1970, has improved the efficiency of the grain gathering and delivery system and has contributed to better utilization of railway cars and locomotives. Further changes in the system are needed to increase capacity and provide for greater flexibility in meeting the requirements of the grain market. The government-industry Grains Group Study Team is continuing to work towards those goals.

Repair Facilities Modernized

Maintaining the large and increasingly specialized fleet of freight cars is costly. Freight car repair expenses in 1971 amounted to $41 million, representing 7% of total railway operating expenses. CP Rail is strengthening control of these costs in a number of ways. One is through adoption of freight car maintenance schedules that are geared more sensitively to traffic requirements. Another is by making freight car repair facilities more efficient. At Weston Shops in Winnipeg a new semi-automatic paint shop was constructed last year and work has begun on a semi-automatic wheel and axle shop. A start is planned for 1972 on a third shop, to be located in Calgary, for making heavy repairs to freight cars.

Transcontinental Rail Passenger Service

The Canadian Transport Commission is in the process of making its planned study of rationalization of the Montreal and Toronto to Vancouver passenger train services operated by CP Rail and the Canadian National. In an interim report the Commission recommended that the two companies integrate their ticketing and reservation service, introduce a common fare structure with tickets interchangeable between the two railways, and share passenger terminals and related facilities where technically feasible. The aim of the Commission is to have a reorganized passenger train service operating in the Fall of 1972.

The Jet Fleet

Although CP Air has made and is continuing to make extensive studies, no decision has been made to add wide-bodied aircraft to its jet fleet. There appears to be little economic justification for these aircraft for the time being because of unused capacity in the airline industry at present.

All CP Air Douglas DC-8 jetliners have now been equipped with inertial navigation systems and navigators were phased out by the end of June.

Financial Review

CP Rail

Net railway earnings for the year amounted to $45.8 million, an increase of $7.4 million, or 19%, over 1970.

Rail freight revenues were up $50.6 million, or 9%, reflecting increases in practically the whole range of commodities carried. Shipments of automobiles, vehicle parts and trucks accounted for substantially greater revenues. The General Motors' strike in 1970 adversely affected shipments in that year, and movements were heavy in the early months of 1971 following settlement of the strike. Revenues from lumber traffic were significantly higher as a result of increased housing starts in both Canada and the United States. Piggyback revenues improved as a result of good retail market conditions. Grain movements were up, largely because of additional wheat sales negotiated with the U.S.S.R., China and Japan.

Government payments for the year amounted to $21.8 million, or $5.6 million less than in 1970, in accordance with provisions of the National Transportation Act.

To assist in meeting higher wage, material and capital costs and to help offset the effect of the reduction in government payments, domestic prices for freight services were increased on a selective basis at various times. A price increase authorized for U.S. railways was applied to traffic moving between Canada and the United States.

Railway expenses increased $35.4 million, or 6%, over 1970. Approximately two-thirds of this increase was attributable to higher wage rates. Depreciation charges were higher because investment increased.

Telecommunications

Telecommunications earnings, before income taxes, amounted to $5.2 million, a decline of $1.5 million from 1970. Growth rates in telex and private wire service were lower, reflecting partly economic conditions and partly the greater degree of market penetration that has been attained.

Shipping

CP (Bermuda) enjoyed a highly successful year, with net earnings exceeding $11 million.

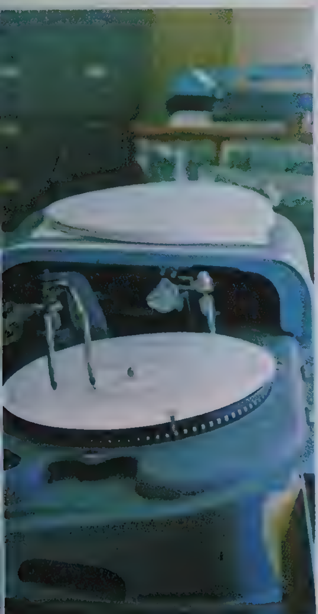
Vessels owned by CP Limited were operated at a loss of $2.1 million, or $100,000 more than in 1970. The ocean steamships "Empress of Canada" and "Beaverelm" accounted for most of the loss and the Bay of Fundy Coastal operation for the remainder. B.C. Coastal operations showed improved results as revenue growth more than offset increases in wages and other costs.

Delays in delivery of CP Steamships' new cellular container ships added substantially to that company's costs of providing container service during the first eight months of the year.

Bulk petroleum products are transferred from railway tank cars to CP Transport highway units for delivery to gasoline stations in British Columbia.

Integrator operator recording gas flow data for PanCanadian Petroleum. In 1971, the company produced 65.5 billion cubic feet of natural gas, an average of 179.3 million cubic feet per day.

CP Telecommunications
test circuitry panels
installed in 1971
at Vancouver.



New Northstar Inn in
Winnipeg which was added
to CP Hotels chain
in 1971.

Vancouver Granville Square
office tower, part of
Project 200 downtown
development in which
Marathon Realty has a
major interest.

CP Air

Net income of CP Air rose to $2.1 million from the $1.0 million earned in 1970. While this was gratifying under the conditions existing, the ratio of net to revenues, at slightly more than 1%, was still far below a satisfactory level.

Operating revenues for the year increased by less than 6%. Operating expenses rose 4%, despite reductions in frequencies on some routes and overall cost controls. Although the number of CP Air employees decreased to 5,364 from 5,510 at the end of 1970, salaries, wages and benefits for the year reached $56.8 million, an increase of 10% over 1970.

Passenger revenues, at $129.1 million, were up 6%. Fare increases on certain routes helped in meeting increased costs, but in other areas competitive pressures necessitated price reductions. Passenger revenues from international services were up marginally. Revenue from the transcontinental service was higher because of both increased traffic and a fare increase. The growth in traffic was achieved despite absence of growth in the total market and in the face of competition from wide-bodied jet service between Vancouver and Toronto.

Canadian Pacific Investments Limited

The consolidated net income of this company was down from $39.3 million in 1970 to $35.8 million in 1971, largely because of the effects of exchange rates and price weaknesses on earnings from its metal and pulp and paper interests. In contrast, income from oil and gas and from hotels was substantially above 1970. Greater production and an increase in the price of crude oil accounted for the higher earnings of PanCanadian Petroleum. The level of business was generally good throughout the hotel chain, but markedly so at Le Château Champlain in Montreal. Income from timberlands and from real estate varied little from the 1970 level.

New Financing

In February 1971 Canadian Pacific Limited issued and sold Collateral Trust Bonds in the amounts of $20 million 8¼% six year bonds and $50 million 8⅞% twenty-one year bonds. In May the Company borrowed $4.6 million in U.S. funds from the Export-Import Bank of the United States and $0.5 million in U.S. funds from The Boeing Company for the purchase of aircraft.

Fixed charges were up $6.0 million in 1971 as a result of the additional borrowings both in 1971 and 1970 and the higher interest rates.

Valuation Day Prices

Market values of shares of Canadian Pacific Limited on Valuation Day, December 22, 1971, for purposes of The Income Tax Act, are as follows:

7¼% Cumulative Redeemable Preferred Shares, Series A — per share	$10.75
4% Non-cumulative Preference stock	
— Canadian dollar units ($15 par value)	9.63
— Sterling units (£5 par value)	7.75
Ordinary stock — per share	13.88

Directorate

In May 1971 the Directors received with regret the resignation of Mr. S. M. Gossage as a Director upon his retirement as Vice-President of the Company, under the Pension Rules, after many years of distinguished service as an officer of the Company.

Mr. F. S. Burbidge was appointed a Director and elected Vice-President of the Company, to succeed Mr. Gossage.

Effective December 31, 1971, Messrs. George W. Bourke and Harold M. Turner retired from the Board. The Directors desire to record their warm appreciation for the notable contribution to the affairs of the Company that has been made by these retiring members during the long period of their association with the Board.

In January and February 1972, Mr. Keith Campbell and Mr. John H. Moore were appointed Directors to succeed Messrs. Bourke and Turner, respectively, and Mr. Ray D. Wolfe was appointed a Director to replace Mr. C. A. Fielding, whose resignation was received with regret in October 1971.

Customers and Staff

The Directors take pleasure in thanking all customers for their support and officers and employees for their contribution to a successful year.

For the Directors,

President and Chief Executive Officer

Chairman of the Company

Montreal, March 13, 1972

Canadian Pacific Limited Financial Statements 1971

Board of Directors and Officers

Directors

*W. A. Arbuckle, *Chairman of the Canadian Board,* The Standard Life Assurance Company, Montreal

G. Maxwell Bell, *Chairman,* "F.P." Publications Limited, Calgary

W. J. Bennett, OBE, *President,* Iron Ore Company of Canada, Montreal

Sir George Bolton, KCMG, *Chairman,* Commonwealth Development Finance Company Limited, London, England

*F. S. Burbidge, *Vice-President of the Company,* Canadian Pacific Limited, Montreal

Keith Campbell, *Vice-President Administration,* Canadian Pacific Limited, Montreal

Cyril F. H. Carson, QC, *Partner,* Tilley, Carson & Findlay, Toronto

The Honourable J. V. Clyne, *Chairman of the Board and Chief Executive Officer,* MacMillan Bloedel Limited, Vancouver

*N. R. Crump, C.C., *Chairman of the Company,* Canadian Pacific Limited, Montreal

G. Arnold Hart, MBE, *Chairman of the Board,* Bank of Montreal, Montreal

Allard Jiskoot, *Partner,* Pierson, Heldring & Pierson, Amsterdam, The Netherlands

David Kinnear, *Chairman of the Board,* The T. Eaton Co. Limited, Toronto

H. J. Lang, *Chairman and Chief Executive Officer,* Canron Limited, Montreal

*Herbert H. Lank, *Director,* Du Pont of Canada Limited, Montreal

*W. Earle McLaughlin, *Chairman and President,* The Royal Bank of Canada, Montreal

J. H. Moore, *President,* Brascan Limited, Toronto

Claude Pratte, QC, *Advocate,* Quebec City

Lucien G. Rolland, *President and General Manager,* Rolland Paper Company, Limited, Montreal

A. M. Runciman, *President,* United Grain Growers Limited, Winnipeg

*Ian D. Sinclair, *President and Chief Executive Officer,* Canadian Pacific Limited, Montreal

*H. Greville Smith, CBE, *President,* Canadian International Investment Trust Limited, Montreal

Norman E. Whitmore, *President,* Wascana Investments Limited, Regina

Henry S. Wingate, *Chairman of the Board,* The International Nickel Company of Canada, Limited

Ray D. Wolfe, *President,* The Oshawa Group Limited, Toronto

*Member of Executive Committee

Officers

N. R. Crump, C.C., *Chairman of the Company,* Montreal

Ian D. Sinclair, *President and Chief Executive Officer,* Montreal

F. S. Burbidge, *Vice-President of the Company,* Montreal

Corporate Services

Keith Campbell, *Vice-President Administration,* Montreal

F. A. Rutherford, *Vice-President and Comptroller,* Montreal

G. J. van den Berg, *Vice-President, Finance,* Montreal

J. A. Wright, QC, *Vice-President, Law,* Montreal

D. E. Sloan, *Treasurer,* Montreal

T. F. Turner, *Secretary,* Montreal

CP Rail

F. S. Burbidge, *Senior Executive Officer,* Montreal

J. C. Anderson, *Vice-President, Industrial Relations,* Montreal

J. M. Bentham, *Vice-President, Purchases and Stores,* Montreal

D. M. Dunlop, *Vice-President, Operation and Maintenance,* Montreal

A. F. Joplin, *Vice-President Marketing and Sales,* Montreal

P. A. Nepveu, *Vice-President Accounts and Data Systems,* Montreal

J. N. Fraine, *Senior Regional Vice-President, Pacific Region,* Vancouver

R. S. Allison, *Vice-President, Prairie Region,* Winnipeg

G. E. Benoit, *Vice-President, Atlantic Region,* Montreal

L. R. Smith, *Vice-President, Eastern Region,* Toronto

Transport and Ships

W. J. Stenason, *Vice-President Transport and Ships,* Montreal

Statement of Income for the year ended December 31

	1971	1970
	(in thousands)	
Income from Railway and Miscellaneous Sources		
Railway revenues (Note 3)	**$658,820**	$616,020
Railway expenses	**589,664**	557,228
Income taxes (Note 4)	**23,400**	20,400
	613,064	577,628
Net railway earnings	**45,756**	38,392
Other income before income taxes (Note 5)	**31,597**	23,818
Income taxes (Note 4)	**5,006**	5,668
Other income	**26,591**	18,150
Income before fixed charges	**72,347**	56,542
Fixed charges		
Interest and amortization of discount on long term debt and debenture stock	**27,477**	21,429
Other interest	**3,148**	3,112
Rent for leased roads	**3,143**	3,263
	33,768	27,804
Income from Railway and Miscellaneous Sources	**38,579**	28,738
Income (being dividends received) from		
Canadian Pacific Investments Limited	**23,649**	23,649
Canadian Pacific Air Lines, Limited	**1,433**	1,433
Income before Extraordinary Items	**63,661**	53,820
Extraordinary items (Note 6)	**1,848**	—
Income for the Year	**$ 65,509**	$ 53,820

Statement of Dividends Declared

	1971	1970
On 7¼% Preferred stock (Per share – 1971 – 32¢)	**$ 1,464**	$ —
On 4% Preference stock	**1,938**	3,311
On Ordinary stock		
From railway and miscellaneous sources (Per share – 1971 – 31¢; 1970 – 30¢)	**22,215**	21,499
Flow-through of dividends from		
Canadian Pacific Investments Limited (Per share – 1971 – 33¢; 1970 – 33¢)	**23,649**	23,649
Canadian Pacific Air Lines, Limited (Per share – 1971 – 2¢; 1970 – 2¢)	**1,433**	1,433
Total Ordinary (Per share – 1971 – 66¢; 1970 – 65¢)	**47,297**	46,581
Total Dividends	**$ 50,699**	$ 49,892

See Notes to Financial Statements

Statement of Retained Income for the year ended December 31

	1971	1970
	(in thousands)	
Balance, January 1	$762,679	$758,751
Add:		
Income for the year	65,509	53,820
	828,188	812,571
Deduct:		
Dividends		
7¼% Preferred stock	1,464	—
4% Preference stock	1,938	3,311
Ordinary stock	47,297	46,581
	50,699	49,892
Balance, December 31	$777,489	$762,679

Statement of Source and Application of Funds for the year ended December 31

	1971	1970
	(in thousands)	
Source of Funds		
Income for the year	$ 65,509	$ 53,820
Depreciation	75,884	74,222
Deferred income taxes	4,100	6,700
Provision for impairment of investments	4,136	2,044
Funds from operations	149,629	136,786
Sales of investments	15,196	5,086
Deposits	2,897	9,139
Salvage from retired property	10,301	15,628
Property transfers to subsidiaries	8,409	5,035
Issuance of long term debt	75,987	35,248
Sundries (net)	6,406	5,903
	$268,825	$212,825
Application of Funds		
Purchase of investments	$ 61,541	$ 41,187
Reduction in long term debt	44,824	23,070
Redemption of preferred stock	285	—
Additions to properties	100,304	117,293
Dividends declared	50,699	49,892
Deferred aircraft lease payments	3,449	6,221
Increase in working capital	7,723	(24,838)
	$268,825	$212,825

See Notes to Financial Statements

Balance Sheet, December 31

	1971	1970
		(in thousands)
Assets		
Current Assets		
Cash and temporary investments, at cost (approximates market)	$ 89,837	$ 47,334
Dividend receivable from Canadian Pacific Investments Limited	12,165	12,165
Accounts receivable	120,202	109,860
Material and supplies, at cost or less	43,592	45,726
	265,796	215,085
Other Assets		
Deposits	2,751	5,648
Unamortized discount on long term debt	2,321	1,859
Other deferred charges	12,710	16,757
Deferred aircraft lease payments (Note 9)	69,199	65,750
	86,981	90,014
Insurance Fund, at cost (approximate market 1971 – $5,999,000; 1970 – $5,732,000)	6,798	6,635
Investments (Note 1)		
Subsidiary companies		
Canadian Pacific Investments Limited	321,606	321,606
Canadian Pacific Air Lines, Limited	30,000	30,000
Other subsidiary companies (including advances 1971 – $7,957,000; 1970 – $7,020,000) (Note 7)	202,253	163,004
Other investments (Note 8)	41,334	38,374
	595,193	552,984
Properties, at cost (Note 9)		
Railway	2,420,069	2,401,941
Telecommunications	136,222	131,311
Steamships	49,307	50,093
Hotels	22,275	25,509
Other	14,597	10,808
	2,642,470	2,619,662
Less: Accumulated depreciation	1,240,994	1,221,823
	1,401,476	1,397,839
	$2,356,244	$2,262,557

Auditors' Report to the Shareholders of Canadian Pacific Limited

We have examined the balance sheet of Canadian Pacific Limited as at December 31, 1971 and the statements of income, retained income and source and application of funds for the year then ended (as shown on pages 12 to 18 inclusive). Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at

See Notes to Financial Statements

		1971	1970
		(in thousands)	
Liabilities			
Current Liabilities			
Bank loans		$ **1,000**	$ 1,000
Accounts payable and wages accrued		**84,468**	85,255
Deposits by affiliated companies (net)		**19,287**	15,189
Demand loan from Canadian Pacific Securities Limited		**25,000**	25,000
Income and other taxes payable		**8,018**	1,685
Dividends payable		**26,741**	25,921
Long term debt due within one year		**36,386**	16,786
Other current liabilities		**55,535**	42,611
		256,435	213,447
Deferred Liabilities		**12,363**	11,665
Insurance Reserve		**6,798**	6,635
Long Term Debt (Note 10)		**250,920**	219,757
Perpetual 4% Consolidated Debenture Stock (Note 11)		**292,549**	292,549
Deferred Income Taxes		**142,000**	137,900
Shareholders' Equity			
Preferred stock (Note 12)			
Authorized	– 24,974,150 shares of a par value of $10 each		
Issued	– 4,573,563 7¼ % Cumulative Redeemable Series A shares	**45,736**	—
Preference stock – 4% non-cumulative (Note 12)			
Authorized	– an amount not exceeding one-half the aggregate amount of Ordinary stock outstanding		
Issued	– £900,251 in amounts of £1 and multiples thereof (1970 – £3,271,505)	**4,381**	15,921
	$11,732,856 in amounts of $3 and multiples thereof (1970 – $74,795,916)	**11,733**	74,796
		16,114	90,717
Ordinary stock (Note 13)			
Authorized	– 100,000,000 shares of a par value of $5 each		
Issued	– 71,662,280 shares	**358,311**	358,311
Premium on stock		**113,651**	85,069
Donations and grants		**83,878**	83,828
Retained income		**777,489**	762,679
		1,395,179	1,380,604
		$2,356,244	$2,262,557

December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.,
Chartered Accountants

Montreal, Quebec, March 10, 1972.

F. A. Rutherford, Vice-President and Comptroller

Notes to Financial Statements

1 – Investments

Owing to the statutory regulation of the chief operations carried on directly by Canadian Pacific Limited, the Company follows the practice of presenting the financial statements on a non-consolidated basis and of providing separate financial statements for the major subsidiaries. Accordingly, financial statements of Canadian Pacific Investments Limited, in which the Company held 99.76% of the common shares (90.79% of total voting shares) at December 31, 1971 (99.82% and 90.83% respectively at December 31, 1970) and of Canadian Pacific Air Lines, Limited, which is wholly-owned, are presented on pages 25 to 32 and 19 to 24 respectively.

It is the practice of the Company to carry investments in subsidiary and 50% owned companies at cost less provision for impairment in respect of companies with deficits. Profits are reflected in income only to the extent of dividends received or of reductions of previous provisions for impairment. Other investments are carried at cost.

The Company's equity in the net income of all subsidiaries for 1971 was $47,998,000 (1970 – $42,406,000). The income statement of the Company included $37,967,000 (1970 – $30,549,000) from subsidiaries. Its equity in the retained earnings of subsidiaries at December 31, 1971, since date of acquisition, is $200,008,000 (1970 – $190,826,000).

Earnings per share in 1971, before inclusion of equity in earnings of subsidiaries, amounted to 84¢ before extraordinary items (1970 - 70¢) and 87¢ in total (1970 – 70¢). Assuming full dilution of the Company's interest in Canadian Pacific Investments Limited through conversion of preferred shares and exercise of warrants, earnings per share, including equity in earnings retained by subsidiaries, would be 93¢ before extraordinary items and 98¢ in total for 1971. In calculating such earnings, a return of prime bank rate on the proceeds of the exercise of warrants has been assumed.

2 – Foreign Exchange

Items in foreign currencies have been translated into Canadian dollars at current rates, except for properties and related depreciation, investments, long term debt and debenture and capital stocks, for which historical rates have been used. Gains or losses on exchange translation are included in or charged to other income.

3 – Railway Revenues

	1971	1970
		(in thousands)
Freight revenue	**$595,399**	$544,806
Passenger services	**20,443**	21,815
Express	**5,754**	5,546
Other	**15,410**	16,435
Government payments	**21,814**	27,418
	$658,820	$616,020

4 – Income Taxes

The provision for income taxes reflected in income, in the total amount of $28,406,000 (1970 – $26,068,000), includes $4,100,000 (1970 – $6,700,000) in respect of deferred income taxes. The Esquimalt and Nanaimo Railway Company, a wholly-owned subsidiary, has received a reassessment under the Logging Tax Act of British Columbia. The claim, for which no provision is reflected in the accompanying financial statements, is for approximately $4,000,000 and the reassessment is being contested.

5 – Other Income

	1971	1970
		(in thousands)
Net earnings from telecommunications	**$ 5,164**	$ 6,707
Net earnings from steamships	**(2,119)**	(1,985
Income from miscellaneous sources	**4,528**	3,687
	7,573	8,409
Income from subsidiary companies excluding Canadian Pacific Investments Limited and Canadian Pacific Air Lines, Limited		
Dividends	**17,003**	7,495
Adjustment of provision for impairment of investments	**(4,118)**	(2,028
	12,885	5,467
Interest	**1,300**	890
	14,185	6,357
Income from other investments	**9,839**	9,052
Other income before income taxes	**31,597**	23,818
Income taxes	**5,006**	5,668
Other income	**$26,591**	$18,150

6 – Extraordinary Items

The extraordinary item represents the net gain on a sale of Shaughnessy Heights land to the City of Vancouver.

Notes to Financial Statements

7 – Investments – Other Subsidiary Companies

	Cost – less provision for impairment (in thousands)	Percentage of voting power
Canadian Pacific (Bermuda) Limited	$110,435	100
Canadian Pacific Express Ltd.	10,130	100
Canadian Pacific Steamships, Limited	2,447	100
Canadian Pacific Transport Company, Limited	18,976	100
CanPac Leasing Limited	1,000	100
Smith Transport, Limited	12,000	100
Soo Line Railroad Company	42,484	56
Miscellaneous	4,781	
	$202,253	

8 – Other Investments

	Cost – less provision for impairment (in thousands)	Percentage of voting power
Northern Alberta Railways Company	$ 25,340	50
The Toronto, Hamilton and Buffalo Railway Company	512	27
The Toronto Terminals Railway Company	9,804	50
	35,656	
Deferred payments and mortgages on properties	290	
Miscellaneous	5,388	
	$ 41,334	

9 – Properties

Depreciation charged to income amounted to $75,884,000 in 1971 (1970 – $74,222,000) and was calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway property, the rates used are as authorized by the Canadian Transport Commission.

Fifteen aircraft and related equipment leased, with an option to purchase, to Canadian Pacific Air Lines, Limited, are recorded in the balance sheet as deferred aircraft lease payments with the amount due in 1972 as current assets. The excess of the option price over the residual value of the aircraft is included with deferred liabilities until such time as the options to purchase are exercised.

10 – Long Term Debt

	Rate	Year of issue	Year of maturity	Principal outstanding 1971 (in thousands)	1970
Collateral Trust Bonds (a)					
Eighteen year	3¾ %	1954	1972	**$ 18,868**	$ 18,868
Thirty year (b)	3½ %	1944	1974	**7,624**	7,624
Six year	8¼ %	1971	1977	**20,000**	—
Twenty-five year	5 %	1958	1983	**37,401**	37,401
Twenty year (c)	8¾ %-8½ %	1969	1989	**25,000**	25,000
Twenty-one year (d)	8⅞ %	1971	1992	**50,000**	—
				158,893	88,893
Equipment Trust Certificates (b)					
Series "P"	5 %	1966	1973-81	**16,063**	17,848
Series "R"	6⅜ %	1967	1982	**16,559**	19,592
Series "S"	6.9 %	1968	1983	**14,270**	17,142
Series "T"	8¼ %	1969	1984	**25,653**	27,820
				72,545	82,402
Term bank loan	7 %	1967	1973	**6,000**	10,000
Term bank loans	Prime+ ½ %	1969	1974	**15,000**	20,000
Term bank loans	Prime+1 %	1970	1975	**24,000**	30,000
				45,000	60,000
Promissory note	6 %	1971	1975	**850**	—
Promissory notes (b)	6 %	1970-71	1976-78	**10,018**	5,248
				10,868	5,248
				287,306	236,543
Less: Maturities and sinking fund requirements included in current liabilities				**36,386**	16,786
				$250,920	$219,757

(Note 10 continued on page 18)

Notes to Financial Statements

10 – Long Term Debt (continued)

Annual maturities and sinking fund requirements for each of the five years following 1971 are:
1972, $36,386,000; 1973, $18,878,000; 1974, $27,980,000(e); 1975, $16,971,000; 1976, $10,121,000.

(a) Secured by pledge of Perpetual 4% Consolidated Debenture Stock aggregating, in principal amount, $265,360,000 at December 31, 1971 (1970 – $125,360,000).
(b) Issued in U.S. funds; principal outstanding expressed as Canadian equivalent at rates ruling at date of issue.
(c) Subject to prepayment on November 1, 1974 at the holder's option. Subject thereafter to a sinking fund.
(d) Subject to a sinking fund from August 1, 1977 to 1991.
(e) Excluding the $25,000,000 Twenty Year Collateral Trust Bonds, subject to prepayment in 1974 at the holder's option.

11 – Perpetual 4% Consolidated Debenture Stock

	Sterling	United States currency	Canadian currency	Total (in thousands)
Issued	£46,757	$72,838	$257,522	$557,909
Less: Pledged as collateral	—	7,838	257,522	265,360
	£46,757	$65,000	$ —	$292,549

Sterling translated at Can. $4.86⅔ to the £1; U.S. dollars at par.

12 – Preferred Shares

The authorized capital was increased by the creation of 25,000,000 cumulative redeemable preferred shares, par value $10, issuable in series. The first series consists of 5,600,000 shares designated 7¼% Cumulative Redeemable Preferred Shares, Series A. The series A shares are redeemable at the Company's option after January 1, 1978 at $10.50 on or before January 1, 1981, and thereafter and on or before January 1, 1984 at $10.25 and thereafter at $10.00. From September 17 to November 20, 1971, holders of Canadian dollar and sterling preference stock were offered one series A preferred share for each $15 or £6 of preference stock surrendered. A total of 4,599,413 series A shares was issued in exchange for $63,063,060 Canadian dollar and £2,371,254 sterling preference stock. The excess of the carrying value of the preference stock over the par value of the preferred shares was credited to premium on stock. Commencing January 1, 1972, a mandatory purchase fund of $2,000,000 per year will be established to purchase series A shares, if available, at prices not in excess of the redemption price plus costs of purchase. To December 31, 1971, $285,000 had been applied to the purchase of 25,850 shares in anticipation of the 1972 requirement.

13 – Ordinary Stock

On October 1, 1971, the par value of shares of Ordinary capital stock was changed from $25 to $5, increasing the number of authorized shares to 100,000,000 and the number of shares issued to 71,662,280.

14 – Pension Plan

Amendments to the pension plan effective July 1, 1971 include improved benefits, funding of past service costs as required by legislation, and the payment by the fund of all pensions, including the portion formerly paid directly by the Company. The unfunded liability at December 31, 1971, as determined by an actuarial survey, was $354,643,000 of which $79,366,000 is to be funded by equal annual payments to 1992 and $275,277,000 is to be funded by equal annual payments to 2027. In total, these changes do not significantly affect the annual pension expense borne by the Company.

15 – Contingent Liabilities and Commitments

The Company is contingently liable to purchase promissory notes of Canadian Pacific Air Lines, Limited in the amount of U.S. $9,675,000 held by the Export-Import Bank of the United States.

The Company is contingently liable under guarantees of bank loans in the amounts of £2,980,000 and $2,100,000.

The Company had placed orders or was otherwise committed to capital expenditures in the amount of $64,723,000 at December 31, 1971 (1970 – $58,746,000).

Annual commitments for rent for leased roads amounted to approximately $3,100,000 at December 31, 1971 (1970 – $3,300,000).

Commitments for rent for freight cars leased for varying periods through to 1986 amounted to approximately $32,800,000 at December 31, 1971 (1970 – through to 1986, $40,900,000).

Canadian Pacific Air Lines, Limited Financial Statements 1971

Board of Directors and Officers

Directors

Charles R. Bronfman,
President,
The House of Seagram Ltd., Montreal

N. R. Crump, C.C.,
Chairman of the Company,
Canadian Pacific Limited, Montreal

John C. Gilmer,
President and Chief Executive Officer,
Canadian Pacific Air Lines, Limited, Vancouver

John B. Hamilton, Q.C.,
Senior Partner,
Hamilton, Torrance, Stinson, Campbell, Nobbs & Woods, Toronto

Allard Jiskoot,
Partner,
Pierson, Heldring & Pierson,
Amsterdam, The Netherlands

Senator the Hon. E. C. Manning, P.C., C.C.,
President,
M and M Systems Research Ltd., Edmonton

Hugh A. Martin,
President,
Western Construction & Engineering Research Ltd., Vancouver

Jean P. W. Ostiguy,
President,
Morgan, Ostiguy & Hudon, Inc., Montreal

George E. Sharpe,
President,
Sharpe's Limited, Winnipeg

Ian D. Sinclair,
President and Chief Executive Officer,
Canadian Pacific Limited, Montreal

Officers

Ian D. Sinclair,
Chairman

John C. Gilmer,
President and Chief Executive Officer

H. D. Cameron,
Vice-President, International and Corporate Services

I. A. Gray,
Vice-President, Technical Services

G. E. Manning,
Vice-President, Customer Service

C. F. O'Brien,
Vice-President and Comptroller

R. B. Phillips,
Vice-President, Flight Operations

H. B. Renwick,
Vice-President, Marketing and Sales

J. W. H. Crawford,
Treasurer and Assistant Secretary

T. F. Turner,
Secretary

Executive Offices,
1281 West Georgia Street,
Vancouver 5, Canada

Statement of Income for the year ended December 31

	1971	1970
	(in thousands)	
Operating Revenues		
Passenger	**$129,148**	$121,560
Cargo	**11,789**	10,940
Mail	**8,196**	7,720
Charter	**5,792**	6,596
Other	**3,020**	2,767
	157,945	149,583
Operating Expenses		
Flying operations	**36,709**	34,919
Maintenance	**16,684**	18,954
Passenger service	**17,923**	17,802
Aircraft and traffic servicing	**20,726**	18,669
Sales and promotion	**30,328**	28,517
General and administrative	**9,578**	8,885
Depreciation	**16,649**	15,286
	148,597	143,032
Operating Income	**9,348**	6,551
Non-operating Income (Expense)		
Investment income (Note 3)	**1,607**	1,911
Interest on demand loan	**(1,307)**	(1,421)
Interest on long term debt	**(5,408)**	(4,977)
Income before Income Taxes	**4,240**	2,064
Provision for deferred income taxes	**2,100**	1,061
Net Income	**$ 2,140**	$ 1,003

See Notes to Financial Statements

Statement of Retained Income for the year ended December 31

	1971	1970
	(in thousands)	
Balance, January 1	$ 3,170	$ 3,600
Add:		
Net income for the year	2,140	1,003
	5,310	4,603
Deduct:		
Dividends		
Preference shares	500	500
Ordinary shares	933	933
	1,433	1,433
Balance, December 31	$ 3,877	$ 3,170

Statement of Source and Application of Funds for the year ended December 31

	1971	1970
	(in thousands)	
Source of Funds		
Net income	$ 2,140	$ 1,003
Depreciation	16,649	15,286
Deferred income taxes	2,100	1,061
Funds from operations	20,889	17,350
Disposal of properties	368	193
Issuance of capital stock	—	7,250
Long term borrowings	15,040	16,638
Agreement for sale	788	187
Other	—	94
	$37,085	$41,712
Application of Funds		
Additions to properties	$19,528	$18,254
Reduction of long term debt	13,085	10,417
Dividends	1,433	1,433
Deferred charges	720	—
Increase in working capital	2,319	11,608
	$37,085	$41,712

See Notes to Financial Statements

Balance Sheet, December 31

	1971	1970
		(in thousands)
Assets		
Current Assets		
Cash	$ 4,490	$ 1,767
Deposits with Canadian Pacific Limited	19,718	13,887
Accounts receivable	13,387	14,026
Material and supplies, at average cost	6,087	6,450
Prepaid expenses	695	629
	44,377	36,759
Agreement for Sale	—	788
Properties, at cost		
Flight equipment (Note 5)	176,648	161,822
Buildings and ground equipment	38,452	36,113
	215,100	197,935
Less: Accumulated depreciation	73,498	58,844
	141,602	139,091
Deferred Charges (Note 1)	720	—
	$186,699	$176,638

Auditors' Report to the Shareholders of Canadian Pacific Air Lines, Limited

We have examined the balance sheet of Canadian Pacific Air Lines, Limited as at December 31, 1971 and the statements of income, retained income and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at

See Notes to Financial Statements

	1971	1970
	(in thousands)	
Liabilities		
Current Liabilities		
Accounts payable and accrued charges	**$ 23,987**	$ 22,342
Accounts payable to affiliated companies	**100**	878
Demand loan from Canadian Pacific Securities Limited	**18,000**	18,000
Unearned transportation revenue	**8,719**	6,941
Current portion of long term debt (Notes 2 and 5)	**12,142**	9,488
	62,948	57,649
Long Term Debt (Notes 2 and 5)	**78,164**	76,209
Deferred Income Taxes	**11,710**	9,610
Shareholders' Equity		
Capital Stock		
Authorized and issued:		
2,000,000 5% Cumulative Redeemable Preference shares of $5 par value	**10,000**	10,000
4,000,000 Ordinary shares of no par value	**20,000**	20,000
	30,000	30,000
Retained Income	**3,877**	3,170
	33,877	33,170
	$186,699	$176,638

December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.,
Chartered Accountants.
February 25, 1972,
Vancouver, B.C.

Approved on behalf of the Board:
J. C. Gilmer, Director
Ian D. Sinclair, Director

Notes to Financial Statements

1 – Deferred Charges
Severance pay totalling $864,000, which was paid to navigators displaced by the installation of inertial navigation systems on Douglas DC-8 aircraft, is being amortized over thirty-six months. In 1971, $144,000 was charged to operations.

2 – Long Term Debt

	1971	1970
a) A 6% loan from the Export-Import Bank of the United States, repayable semi-annually in equal instalments between December 15, 1972 and December 15, 1975 (U.S. $9,675,000)	**$10,459,000**	$10,459,000
Less: Amount included in current liabilities	**1,494,000**	—
	8,965,000	10,459,000
b) Aircraft lease obligations (Note 5)	**69,199,000**	65,750,000
	$78,164,000	$76,209,000

Repayments on long term debt (including aircraft lease obligations) during each of the next five years are approximately as follows: 1972 – $12,142,000; 1973 – $13,637,000; 1974 – $13,637,000; 1975 – $10,801,000; 1976 – $7,695,000.

3 – Investment Income
Interest earned on deposits with Canadian Pacific Limited totalled $1,169,000 (1970 – $1,410,000).

4 – Contingent Liability
Notes discounted with banks in respect of tickets purchased under the time payment plan total $4,015,000 (1970 – $4,587,000).

5 – Accounting for Leased Aircraft
The Company leases eleven Douglas DC-8 and four Boeing 727 aircraft and related equipment from Canadian Pacific Limited. For financial statement purposes these aircraft and equipment are treated as though they are owned. The present value of lease obligations which are payable within one year has been included with current liabilities and the remainder shown as long term debt.

6 – Remuneration of Directors and Officers
Total remuneration of the Company's ten directors in their capacity as directors amounted to $14,000 (1970 – $14,000). The ten officers, two of whom are also directors, received remuneration in their capacity as officers in the aggregate amount of $283,000 (1970 – $272,000).

7 – Pension Plan Liability
Prior to January 1, 1966, employees of the Company participated in the pension plan of Canadian Pacific Limited. Benefits accruing to the participants therein have been preserved in the Company's pension plan which was established with effect from January 1, 1966. An actuarial evaluation of the plan as at December 31, 1970 indicated an unfunded liability of $5,164,000 in respect of past service. The Pension Benefits Standards Act requires the plan to be funded by October 1, 1992 and payments as required will be charged to operations.

8 – Restatement of Comparative Figures
Figures for 1970 have been restated where necessary to conform with the presentation adopted for 1971.

Canadian Pacific Investments Limited Financial Statements 1971

Board of Directors and Officers

Directors

*W. A. Arbuckle,
Chairman of the Canadian Board,
The Standard Life Assurance Company, Montreal

*A. M. Campbell,
Chairman and Chief Executive Officer,
Sun Life Assurance Company of Canada, Montreal

*N. R. Crump, C.C.,
Chairman of the Company,
Canadian Pacific Limited, Montreal

R. Hendricks,
Chairman and Chief Executive Officer,
Cominco Ltd., Vancouver

S. E. Nixon,
Director,
Dominion Securities Corporation Limited, Montreal

H. M. Pickard,
Executive Vice-President,
Canadian Pacific Investments Limited, Calgary

*The Hon. Duff Roblin, P.C., C.C.,
President,
Canadian Pacific Investments Limited, Montreal

*Ian D. Sinclair,
President and Chief Executive Officer,
Canadian Pacific Limited, Montreal

G. J. van den Berg,
Vice-President, Finance,
Canadian Pacific Limited, Montreal

*Member of Executive Committee

Transfer Agent and Registrar

Montreal Trust Company, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Stock Listings

Preferred Shares, Series A:
Montreal, Toronto and Vancouver Stock Exchanges

Officers

Ian D. Sinclair,
Chairman and Chief Executive Officer,
Montreal

The Hon. Duff Roblin, P.C., C.C.,
President,
Montreal

H. M. Pickard,
Executive Vice-President,
Calgary

G. J. van den Berg,
Vice-President, Investments,
Montreal

F. A. Rutherford,
Comptroller,
Montreal

D. E. Sloan,
Treasurer,
Montreal

J. C. Ames,
Secretary,
Montreal

Statement of Consolidated Income for the year ended December 31

	1971	1970
		(in thousands)
Oil, Gas and Other Minerals		
Gross operating revenue	**$40,005**	$35,550
Expenses including income taxes	**27,145**	24,647
Net income	**12,860**	10,903
Timberlands and Related Facilities		
Sales and operating revenue	**21,601**	27,623
Expenses including income taxes	**19,890**	25,940
Net income	**1,711**	1,683
Real Estate and Related Operations		
Gross rentals and other income	**23,266**	18,681
Expenses including income taxes	**21,810**	17,086
Net income	**1,456**	1,595
Hotels and Restaurants		
Gross operating revenue	**50,736**	46,435
Expenses including income taxes	**48,334**	45,558
Net income	**2,402**	877
Financing		
Gross operating revenue	**15,617**	18,185
Expenses including income taxes	**15,512**	18,059
Net income	**105**	126
Investment Income		
Dividends		
Cominco Ltd.	**6,216**	12,431
Other subsidiary companies not consolidated	**1,279**	95
Other investment income	**5,967**	10,613
	13,462	23,139
Expenses including income taxes	**733**	1,239
Net income	**12,729**	21,900
Net Income from Operations		
(after income taxes of – 1971 – $11,404,000; 1970 – $9,961,000) (Note 8)	**31,263**	37,084
Equity in income of subsidiaries not consolidated in excess of dividends included above (Note 2)	**1,472**	708
Income before Extraordinary Items	**32,735**	37,792
Extraordinary items (Note 7)	**3,043**	1,510
Net Income	**$35,778**	$39,302
Earnings per common share (Note 12)		
Income before extraordinary items	**56¢**	66¢
Net income	**62¢**	69¢

See Notes to Financial Statements

Statement of Consolidated Retained Income for the year ended December 31

	1971	1970
	(in thousands)	
Balance, January 1	**$156,246**	$145,363
Add:		
Net income for the year	**35,778**	39,302
	192,024	184,665
Deduct:		
Dividends		
Preferred shares	**4,705**	4,713
Common shares	**23,718**	23,706
	28,423	28,419
Balance, December 31	**$163,601**	$156,246

Consolidated Investment Portfolio as at December 31, 1971

	Number of Shares	Percentage of Outstanding Voting Shares	Cost	Approximate Market Value
			(in thousands)	
Common Stocks				
Husky Oil Ltd.	487,000	5.04	$ 5,576	$ 7,792
The Investors Group	300,000	4.38	3,650	2,325
MacMillan Bloedel Limited	2,370,100	11.35	69,789	61,030
Northern and Central Gas Corporation Limited	358,200	2.43	5,015	5,149
Rio Algom Mines Limited	1,210,869	9.88	28,280	18,466
TransCanada PipeLines Limited	1,383,840	16.64	51,448	49,126
Union Carbide Canada Limited	825,300	8.25	18,375	11,038
Other			1,627	2,483
			183,760	157,409
Preferred Stocks			32,700	29,470
Bonds, Debentures and Notes			7,900	7,194
			$224,360	$194,073

See Notes to Financial Statements

Consolidated Balance Sheet, December 31

Assets

	1971	1970
		(in thousands)
Current Assets		
Cash and temporary investments, at cost (approximates market)	**$ 56,076**	$ 46,842
Deposits with Canadian Pacific Limited	**5,868**	3,391
Demand loan – Canadian Pacific Limited	**25,000**	25,000
Demand loans and accrued interest – other affiliated companies	**18,203**	18,457
Dividends and other accrued interest receivable	**1,393**	1,940
Accounts receivable	**14,720**	14,762
Inventories, at the lower of cost and market	**4,397**	3,953
Prepaid expenses	**1,288**	1,248
	126,945	115,593
Investment Portfolio, at cost (market value 1971 – $194,073,000; 1970 – $236,483,000)	**224,360**	271,709
Investments in Subsidiary Companies not Consolidated (Note 2)		
Cominco Ltd.	**171,157**	188,545
Other	**60,453**	16,213
	231,610	204,758
Other Investments, at cost	**31,224**	27,535
Properties, at cost		
Oil, gas and other minerals	**260,980**	221,309
Timberlands and related facilities	**65,838**	62,213
Real estate and related operations	**155,585**	142,112
Hotels	**70,121**	68,401
	552,524	494,035
Less: Accumulated depreciation, depletion and amortization	**102,544**	85,126
	449,980	408,909
Other Assets	**5,446**	5,145
Excess of Cost of Shares of Subsidiary Company over Equity in Net Assets at Date of Acquisition (Note 1)	**1,132**	6,868
	$1,070,697	$1,040,517

Auditors' Report to the Shareholders of Canadian Pacific Investments Limited

We have examined the consolidated balance sheet of Canadian Pacific Investments Limited and subsidiary companies as at December 31, 1971 and the statements of consolidated income and consolidated retained income for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In respect of the equity in the undistributed net income of Cominco Ltd. and The Great Lakes Paper Company, Limited, we have relied upon the reports of the auditors who examined their financial statements.

See Notes to Financial Statements

	1971	1970
	(in thousands)	
Liabilities		
Current Liabilities		
Accounts payable and accrued charges		
Canadian Pacific Limited	$ 4,201	$ 4,735
Other	19,582	21,293
Notes and accrued interest payable	130,549	144,747
Income and other taxes payable	3,824	1,871
Dividends payable	12,194	12,186
Long term debt maturing within one year	5,352	12,136
	175,702	196,968
Deferred Liabilities	6,685	7,451
Long Term Debt (Note 4)	150,713	117,026
Minority Shareholders' Interest in Subsidiary Company	14,395	10,496
Deferred Income Taxes	56,037	48,852
Shareholders' Equity		
Capital Stock – (Note 3)		
Preferred shares		
Authorized – 12,500,000 shares of a par value of $20 each		
Issued – 4,946,663 (1970 – 4,958,873) 4¾ % Cumulative Redeemable Convertible Voting, Series A	98,933	99,177
Common shares		
Authorized – 100,000,000 shares without nominal or par value		
Issued – 50,119,859 (1970 – 50,088,304) shares	322,831	322,501
Paid-in surplus	81,800	81,800
Retained income (Note 3)	163,601	156,246
	667,165	659,724
	$1,070,697	$1,040,517

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, subject to possible adjustments which may result in the future from resolution of the matters referred to in the second paragraph of Note 2.

Price Waterhouse & Co.,
Chartered Accountants
Montreal, Quebec, March 9, 1972

Approved on behalf of the Board
Ian D. Sinclair, Director
Duff Roblin, Director

Notes to Financial Statements

1 – Basis of Consolidation

The consolidated financial statements of Canadian Pacific Investments Limited (CPI) include the accounts of all wholly-owned subsidiaries (Marathon Realty Company Limited, Pacific Logging Company Limited, Canadian Pacific Hotels Limited, Canadian Pacific Securities Limited, CanPac Minerals Limited) and PanCanadian Petroleum Limited (PanCanadian), formerly Central-Del Rio Oils Limited, in which CPI has an interest of 87.15%. The minority interest in income of PanCanadian amounts to $1,453,000 for the year 1971 and $1,324,000 for the year 1970.

On December 2, 1971, PanCanadian acquired the net assets, comprising oil and gas properties, of Mana Resources, Inc., a Texas corporation, issuing in consideration 732,601 shares, (2.34% of total shares outstanding after the issue) at a value of $12.50 per share. This transaction resulted in an increase in the book value of CPI's interest in PanCanadian of $5,736,000 which was applied in reduction of Excess of Cost of Shares of Subsidiary Company over Equity in Net Assets at Date of Acquisition, which applied solely to PanCanadian.

The statement of consolidated income is designed to present the revenues and expenses of the various areas of the companies' operations. To this end, certain operating revenues include amounts charged to other consolidated entities and reflected in expenses elsewhere in the statement. Consolidated net income is not affected by this practice.

2 – Investments in Subsidiary Companies not Consolidated

The financial statements of Cominco Ltd., in which CPI has an interest of 53.18%, and other unconsolidated subsidiaries are not consolidated because of the existence of substantial minority interests. Other unconsolidated subsidiaries include The Great Lakes Paper Company, Limited, 51.43% owned (cost $43,656,000) which was transferred from Investment Portfolio in January 1971 upon acquisition of control, and Fording Coal Limited, 60% owned (cost $9,600,000). The equity method of accounting has been followed in stating the investments in these companies, so that CPI includes each year in consolidated income its share of their income.

The notes to the 1971 financial statements of Cominco Ltd. refer to the following: (a) uncertainties in the interpretation of income tax regulations which, if decided in favour of the Department of National Revenue, could result in additional taxes of $2,800,000 for the years 1969 to 1971; (b) disputed income tax assessments involving possible additional taxes aggregating $1,100,000 for the four years ended December 31, 1971; (c) the recoverability of costs of $5,932,000 incurred in the rehabilitation of the Saskatchewan potash mine after flooding in 1970, treated as an amount recoverable from contractors in Cominco's 1971 balance sheet. Although Cominco, supported by its legal counsel, considers that these matters will be resolved in its favour, their outcome cannot be determined at this time.

An analysis of investments in unconsolidated subsidiaries is shown below:

	Investments in	
	Cominco Ltd.	Other
	(in thousands)	
Cost of acquisition	$ 31,216	$ 56,190
Adjustment of cost of shares acquired from Canadian Pacific Limited to equity in underlying assets at December 31, 1963	81,800	—
Equity in net income since acquisition, less dividends received	55,858	499
Equity in other increases in retained income	2,283	—
	171,157	56,689
Advances	—	3,764
	$171,157	$ 60,453

3 – Capital Stock

Each preferred share, series A, is convertible at the option of the holder to November 1, 1977 into two common shares, and is redeemable at CPI's option at $20 per share after November 1, 1972.

At December 31, 1971, 4,986,815 warrants for the purchase of common shares were outstanding. Each warrant entitles the holder to purchase one common share at $14 per share on or before November 1, 1974.

In 1971, a total of 31,555 common shares was issued, consisting of 7,135 shares on exercise of warrants and 24,420 shares on conversion of preferred shares.

Conditions attached to the preferred shares include certain restrictions on distributions on shares ranking junior to the preferred shares. The amount of retained income available for such distributions was approximately $87,000,000 at December 31, 1971.

Notes to Financial Statements

4 – Long Term Debt

	1971	1970
	(in thousands)	
Canadian Pacific Securities Limited		
7% bank term loan repayable 1979	**$ 25,000**	$ —
7½% bank term loan	—	14,000
9½% Sinking Fund Debentures due 1990	**25,000**	25,000
9⅜% Sinking Fund Debentures due 1990	**40,000**	40,000
Marathon Realty Company Limited		
Sundry loans and mortgages payable 1972-1975	**5,905**	2,740
7⅛% bank term loan due 1976	**7,030**	—
Foundation-Scottish Properties Limited		
6½% First Mortgage Bonds maturing 1995, sinking fund payments 1972-1994	**10,606**	10,806
Pacific Logging Company Limited		
Term loans bearing interest at prime rate plus ½% repayable 1972-1974	**6,900**	8,000
PanCanadian Petroleum Limited		
Bank loans bearing interest at prime rate plus ¼% – ½% repayable 1972-1979	**35,624**	17,810
Bank loans bearing interest at varying rates	—	10,806
	156,065	129,162
Less: Long term debt maturing within one year	**5,352**	12,136
	$150,713	$117,026

Annual maturities and sinking fund requirements for each of the five years following 1971 are: 1972, $5,352,000; 1973, $18,784,000; 1974, $5,578,000; 1975, $13,292,000; 1976, $12,153,000.

5 – Interest Expense

Interest on long term debt for 1971 was $18,131,000 (1970 – $8,245,000) and on short term notes $8,325,000 (1970 – $13,616,000).

6 – Depreciation, Depletion and Amortization

Amounts charged for depreciation, depletion and amortization in the statement of consolidated income were $17,637,000 in 1971 (1970 – $16,371,000).

The sinking fund method of providing for depreciation is used for major real estate developments. The sinking fund method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually. Under this method depreciation charged to income in later years will be substantially higher than the amount charged in earlier years.

The amount of depletion charged expenses for the year 1971 was $8,987,000 (1970 – $8,050,000) and the accumulated depletion at December 31, 1971 was $54,327,000 (1970 – $45,636,000).

7 – Extraordinary Items

Extraordinary items comprise, in 1971, gain on disposal of investments, $996,000; gain on conversion of bank loan from U.S. to Canadian currency, $357,000; equity in proceeds from grant of river and water storage rights of Cominco Ltd., $1,460,000; and equity in reduction in income taxes of a subsidiary of Cominco Ltd. resulting from losses and tax credits of prior years, $230,000; and, in 1970, gain on disposal of investments, $670,000; and net gain on sale of a lumber mill by a subsidiary, $840,000.

Notes to Financial Statements

8 – Income Taxes

The provision for income taxes reflected in net income from operations, in the total amount of $11,404,000 (1970 – $9,961,000) includes $7,185,000 (1970 – $6,513,000) in respect of deferred income taxes.

The companies have followed the practice of charging against income both the income taxes currently payable and tax deferments resulting from timing differences between write-offs for book and for tax purposes. In computing deferred income taxes in respect of oil, gas and other minerals an estimated tax rate, which is less than the current effective rate, has been used. While The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants has recommended the use of current effective rates in such a situation, CPI believes its procedures result in adequate provision for deferred income taxes. CPI's policy is more conservative than the general practice in the oil and gas industry in Canada, where the majority of companies do not provide any amounts for income tax deferred as a result of claiming drilling, exploration and lease acquisition costs in excess of amounts written off in the accounts (a practice which is accepted by accounting authorities outside Canada).

The additional amount which would have been provided if current effective tax rates had been used is $2,300,000 (1970 – $1,800,000). The total additional amount which would have been provided to December 31, 1971 is $16,000,000.

9 – Commitments and Contingencies

Commitments for capital expenditures at December 31, 1971 were $14,000,000 (1970 – $16,000,000).

Fording Coal Limited, a 60% owned subsidiary, has arranged lines of credit of Can. $60,000,000 and U.S. $10,000,000 of which CPI has guaranteed 60% and Cominco Ltd. 40%. At December 31, 1971, $57,892,000 had been borrowed.

Loans guaranteed by a subsidiary amounted to $10,860,000.

10 – Foreign Exchange

Current assets and current liabilities in U.S. currency have been translated into Canadian dollars at current rates; other assets and liabilities (which are not significant in amount) have been translated at historical rates. Gains or losses on exchange are included in or charged to income.

11 – Directors' and Officers' Remuneration

Aggregate remuneration paid to persons who served as directors and officers of CPI at any time during the year was as follows:

	1971 (9 directors, 5 of whom were officers)		1970 (9 directors, 5 of whom were officers)	
Paying Company	As Directors	As Officers	As Directors	As Officers
CPI	$18,000	$131,000	$19,000	$144,000
Cominco Ltd.	24,000	139,000	22,000	138,000
Other subsidiaries, principally PanCanadian	18,000	8,000	13,000	7,000

12 – Earnings per Share

Assuming full dilution through conversion of preferred shares and exercise of warrants, earnings per share for 1971 would be 54¢ before extraordinary items and 59¢ in total. In calculating such earnings, a return of prime bank rate on the proceeds of the exercise of warrants has been assumed.

13 – Pension Costs

The unfunded past service liability as determined by an actuarial survey at December 31, 1970 was about $2,200,000. This amount is being funded by equal annual payments to 1990.

14 – Subsequent Financing

On March 1, 1972, PanCanadian Petroleum Limited sold $25,000,000 8⅛% Secured Debentures to mature March 1, 1992. Canadian Pacific Hotels Limited is arranging for the sale of $20,000,000 First Mortgage Sinking Fund Bonds to mature in 1992.

Five-year Summaries

Canadian Pacific Limited

	1967	1968	1969	1970	**1971**
	Figures in millions, except amounts per share				
Net railway earnings	$39.6	$41.3	$34.6	$38.4	**$45.8**
Other income	11.9	23.4	19.2	18.2	**26.6**
Income before fixed charges	51.5	64.7	53.8	56.6	**72.4**
Fixed charges	18.6	21.9	22.4	27.8	**33.8**
Income from railway and miscellaneous sources	32.9	42.8	31.4	28.8	**38.6**
Income (being dividends received) from					
Canadian Pacific Investments Limited	20.1	21.5	23.0	23.6	**23.6**
Canadian Pacific Air Lines, Limited	4.1	1.6	1.4	1.4	**1.4**
Total, excluding earnings retained by subsidiaries and before extraordinary items	57.1	65.9	55.8	53.8	**63.6**
Equity in earnings retained by subsidiaries	19.4	18.2	16.8	10.4	**7.0**
Total before extraordinary items	76.5	84.1	72.6	64.2	**70.6**
Extraordinary items	7.7	(6.8)	3.2	1.5	**4.9**
Total	$84.2	$77.3	$75.8	$65.7	**$75.5**
Per Ordinary share					
Total earnings before extraordinary items	$1.02	$1.13	$ .97	$ .85	**$ .94**
Total earnings	1.13	1.03	1.01	.87	**1.01**
Dividends	.58	.60	.64	.65	**.66**

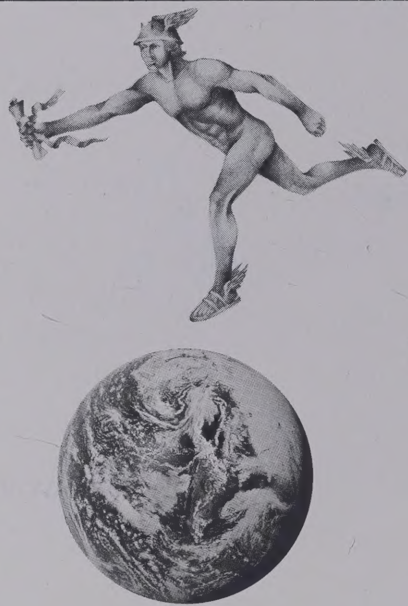
Canadian Pacific Air Lines, Limited

	1967	1968	1969	1970	**1971**
	Figures in thousands, except cents and percentages				
Operating revenues	$ 95,225	$106,698	$133,717	$149,583	**$157,945**
Operating income	5,875	7,927	11,677	6,551	**9,348**
Net income	3,394	2,375	3,495	1,003	**2,140**
Revenue passenger miles	1,492,093	1,651,908	2,218,463	2,601,195	**2,621,256**
Passenger load factor	56.6%	50.4%	52.8%	54.3%	**56.2%**
Revenue per passenger mile–scheduled services	5.38¢	5.41¢	5.41¢	5.13¢	**5.36¢**

Canadian Pacific Investments Limited

	1967	1968	1969	1970	**1971**
	Figures in thousands, except amounts per share				
Net income from operations					
Oil, gas and other minerals	$10,609	$11,850	$11,231	$10,903	**$12,860**
Timberlands and related facilities	542	2,435	3,110	1,683	**1,711**
Real estate and related operations	1,226	1,302	2,071	1,595	**1,456**
Hotels and restaurants	870	(443)	864	877	**2,402**
Financing	204	150	128	126	**105**
Investment income	19,793	22,948	22,125	21,900	**12,729**
	33,244	38,242	39,529	37,084	**31,263**
Equity in income of subsidiaries not consolidated	6,831	3,816	1,425	708	**1,472**
Income before extraordinary items	40,075	42,058	40,954	37,792	**32,735**
Extraordinary items	4,207	1,330	3,158	1,510	**3,043**
Net Income	$44,282	$43,388	$44,112	$39,302	**$35,778**
Per Common share					
Income before extraordinary items	78¢	74¢	72¢	66¢	**56¢**
Net income	86	77	78	69	**62**
Dividends	40	43	46	47.33	**47.33**

Canadian Pacific Limited
Annual Report
1971



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